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ANNUAL REPORT
OF
STRAWBRIDGE & CLOTHIER

FOR THE FISCAL YEAR ENDED

JANUARY 31, 1950

PHILADELPHIA 5, PA.

STRAWBRIDGE & CLOTHIER

Philadelphia

1949 Annual Report to Stockholders

Board of Directors

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Robert E. Strawbridge, *Chairman*

Frederic H. Strawbridge	Dwight G. Perkins
Isaac H. Clothier, Jr.	Donald C. Mills
Francis R. Strawbridge	Isaac H. Clothier, 3rd
Howard Cooper Johnson	Francis R. Strawbridge, Jr.
J. Clayton Strawbridge	G. Stockton Strawbridge

Robert E. Strawbridge, Jr.

♦

Officers

Robert E. Strawbridge ..... *Chairman of the Board*
Dwight G. Perkins ..... *President*
Isaac H. Clothier, Jr. ..... *Vice-President*
Howard Cooper Johnson ..... *Vice-President*
J. Clayton Strawbridge ..... *Vice-President and Secretary*
Isaac H. Clothier, 3rd ..... *Vice-President*
Francis R. Strawbridge, Jr. ..... *Vice-President and Ass't Secretary*
G. Stockton Strawbridge ..... *Vice-President*
Donald C. Mills ..... *Treasurer*
Thomas G. Patton ..... *Assistant Treasurer*

STRAWBRIDGE & CLOTHIER

Annual Report

To Our Stockholders:

The Board of Directors respectfully submits this Annual Report of the operating results of the fiscal year 1949, your company's 82nd year in business, and its financial condition as of the end of that fiscal year, January 31, 1950. The financial statements contained in this report have been certified by Messrs. Ernst & Ernst, accountants for the Company.

Financial Condition

Again, we are pleased to report substantial improvement in the Company's financial condition as is indicated by the following comparative statistics:

	January 31, 1950	January 31, 1949	January 31, 1948
Total assets	$37,627,210	$36,845,663	$35,257,475
Current assets	20,673,777	20,335,186	18,937,045
Current liabilities	5,516,171	6,268,764	6,810,050
Ratio current assets to current liabilities	3.75	3.24	2.78
Working capital	15,157,605	14,066,421	12,126,995
Long-term indebtedness	3,109,503	3,746,376	4,456,261
Preferred stock	8,683,300	8,938,200	8,994,700
Common stock and earnings retained for use in business	19,752,385	17,391,630	14,550,179
Book value per share of common stock	34	30	25

Working capital at January 31, 1950, amounted to $15,157,605.00, the highest in the Company's history, and the ratio of current assets to current liabilities was 3.75 to 1.

As of the close of last year, it was felt that the capital requirements necessary for the operation of the business would probably decline with the advent of lowered prices. Actually, this did not happen, principally because installment selling increased and down payments were lowered to meet competition. Although there was no substantial change in the amount of our regular customers' accounts at January 31, 1950, our installment accounts were about $600,000.00 higher than at January 31, 1949.

Merchandise inventories, valued at current replacement costs, were somewhat lower than last year; on the approved "Lifo" method, the balance sheet value is slightly increased over last year. At January 31, 1950, the approximate adjustment necessary to reduce the value of merchandise inventories from current replacement costs to "Lifo" costs declined to $1,575,000.00.

The long-term note to banks of $3,746,376.46 constitutes the Company's entire funded indebtedness and is being paid off annually by fixed payments of $400,000.00, plus a percentage of net earnings. Principal payments on the long-term bank loan during 1949 amounted to $709,884.14, and during 1950 payments will be $636,873.13. The sinking fund provision of the $5.00 Cumulative Preferred stock was fulfilled in 1949, and you will note that such stock in the balance sheet decreased $254,900.00.

Regular quarterly dividends were declared on the $5.00 Cumulative Preferred stock, and dividends totaling $1.00 per share were paid on the common stock.

Sales Transactions and Earnings

Sales transactions for the year were about equal to the previous year but dollar sales declined slightly. Dollar sales volume was affected generally by lower selling prices throughout the year on most merchandise, as well as by the transit strike during February, 1949. Due to the decreased volume and increased operating costs, the net earnings declined about 12½ per cent. It should be called to your attention that under our approved "Lifo" method of valuing inventories, the decrease in price indices during the year together with lower inventories in many departments at the end of the year, resulted in an approximate decrease of $400,000.00 in the amount necessary to reduce current inventory costs to the "Lifo" cost, and such amount, therefore, is included in the year's income before applicable taxes.

A summary of operating results for 1949, 1948, and 1947 follows:

	1949	1948	1947
Income before taxes	$5,568,154	$6,565,894	$6,909,596
Taxes on income	2,189,000	2,700,000	2,818,000
Net earnings	3,379,154	3,865,894	4,091,596
Dividends declared on preferred stock	438,297	449,264	449,245
Dividends declared on common stock	573,911	573,911	575,129
Earnings retained for use in the business	2,366,946	2,842,719	3,067,222
Earnings per share of common	5.12	5.95	6.35

The Commissioner of Internal Revenue has now examined all tax returns up to and including the year ended January 31, 1949. As a result of the examination, the reserve carried for prior years' income taxes has been reduced $129,000.00.

Improvements

The expansion of the Poplar Street warehouse, adding three additional floors, was completed and occupied in May, 1949. By the addition of this much needed facility, rented facilities were abandoned and the warehouse operation has been improved.

Modernization of the third floor of the main store has been completed, and we believe it is one of the most attractive and up-to-date ready-to-wear sections of any store in the country.

The addition to the Ardmore store was partially occupied shortly before Christmas and final completion is scheduled for early June. There have been added approximately 32,000 square feet of much needed selling and service areas so necessary for the more efficient operation of the store. A substantial expenditure is still to be made for fixtures and equipment.

We cordially invite our stockholders to inspect all of these worth-while improvements which your company has accomplished in the interest of obtaining future operating advantages.

While certain portions of our modernization program have been completed, much remains to be done. Substantial plans have been formulated requiring large expenditures for fixtures and equipment as well as for modernization of other facilities at our main and branch stores.

General

The management of your Company feels that 1949 has, to a large extent, been a year of readjustment. Definitely it saw a turn to a "Buyers' Market" in almost all classes of merchandise, and we feel that the operating results justify our faith in the ability of our organization to meet the challenge of changing business conditions.

The outlook for 1950 is again uncertain and, to a large extent, will depend on general economic conditions. We feel that the "Buyers' Market" will continue and that competition for the sales dollar will be even keener than last year.

Our branch store organization has been strengthened during the past year and we look forward to further progress in this increasingly important segment of our business.

It may be of interest to you to know that the number of stockholders increased about 25% during 1949.

In conclusion, I wish to compliment our co-workers on their record of accomplishment during the past year and, on behalf of the Board of Directors, to thank them for the fine spirit of cooperation that they have exhibited.

FOR THE BOARD OF DIRECTORS

Dwight G Perkins

President

APRIL 7, 1950.

Comparative

STRAWBRIDG

January 31, 1950 a

ASSETS	*January 31, 1950*	*January 31, 1949*
Current Assets		
Cash	$ 3,731,334.58	$ 4,133,574.11
Accounts receivable:		
Customers:		
Charge accounts	7,463,002.56	7,476,632.65
Installment accounts	3,608,015.19	2,999,955.70
Suppliers	254,473.71	190,230.23
	$11,325,491.46	$10,666,818.58
Less allowance for loss	400,000.00	400,000.00
	$10,925,491.46	$10,266,818.58
Merchandise inventories (Note A)	6,016,950.73	5,934,792.89
TOTAL CURRENT ASSETS	$20,673,776.77	$20,335,185.58
Other Assets		
Mortgages receivable and accrued interest	25,918.33	33,108.33
Miscellaneous accounts receivable and advances	140,899.75	56,392.01
Sundry investments—at cost	173,991.00	144,016.00
	$ 340,809.08	$ 233,516.34
Less allowance for loss	50,000.00	50,000.00
	$ 290,809.08	$ 183,516.34
Property, Fixtures, and Equipment—At cost		
Land	5,832,303.92	5,832,303.92
Buildings and equipment	18,811,544.01	17,926,807.54
	$24,643,847.93	$23,759,111.46
Less allowance for depreciation	8,346,689.09	7,795,578.12
	$16,297,158.84	$15,963,533.34
Deferred Charges		
Prepaid expenses	208,598.68	150,208.95
Supply inventories	156,866.42	213,218.96
	$ 365,465.10	$ 363,427.91
	$37,627,209.79	$36,845,663.17

See accompanying "Note

alance Sheet

& CLOTHIER

January 31, 1949

LIABILITIES	*January 31, 1950*	*January 31, 1949*
CURRENT LIABILITIES		
Term note installments maturing within one year (Note B)	$ 636,873.13	$ 709,884.14
Accounts payable	3,152,079.59	3,046,151.25
Accrued accounts	869,792.32	1,003,881.72
Pay roll taxes and taxes withheld from employees	152,491.95	136,742.90
Federal, state, and local taxes—estimated, less U. S. Treasury Notes acquired for payment of federal income taxes ($2,000,000.00 at January 31, 1950, and at January 31, 1949)	498,557.98	1,148,266.63
Deposits on U. S. Savings Bond subscriptions	62,898.67	80,359.92
Dividend payable	143,477.75	143,477.75
TOTAL CURRENT LIABILITIES	$ 5,516,171.39	$ 6,268,764.31
TERM NOTE PAYABLE TO BANKS (Note B)		
Due in quarterly installments to March 1, 1955	3,746,376.46	4,456,260.60
Less principal installments maturing within one year	636,873.13	709,884.14
	$ 3,109,503.33	$ 3,746,376.46
RESERVES		
For income taxes on installment sale gross profit (deferred for tax purposes)—estimated	471,000.00	398,000.00
For self insurance and contingencies	94,850.00	102,692.11
	$ 565,850.00	$ 500,692.11
CAPITAL AND EARNINGS RETAINED FOR USE IN BUSINESS		
Capital stock:		
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—At January 31, 1950, authorized 96,402 shares; outstanding 86,833 shares, after deducting 3,068 shares in treasury (outstanding at January 31, 1949—89,382 shares)—Notes C and D	8,683,300.00	8,938,200.00
Common Stock, par value $5.00 per share—authorized 700,000 shares; outstanding 573,911 shares after deducting 3,661 shares in treasury	2,869,555.00	2,869,555.00
Capital in addition to par value of shares	798,238.42	804,429.38
Earnings retained for use in the business	16,084,591.65	13,717,645.91
TOTAL CAPITAL	$28,435,685.07	$26,329,830.29
LONG-TERM LEASE COMMITMENTS (Note E)		
	$37,627,209.79	$36,845,663.17

o Financial Statements"

Notes to Financial Statements

STRAWBRIDGE & CLOTHIER

January 31, 1950

NOTE A—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in an aggregate amount for inventories at January 31, 1950, approximately $1,575,000.00 less than the amount which would have been determined under the retail inventory method applied without regard to last-in, first-out principles.

NOTE B—The term note payable to banks is due in fixed quarterly installments of $100,000.00 each. In addition to such periodic installments, the Company is required to pay on June 1st of each year an additional amount based on the net profit of the preceding fiscal year, as follows:

On first $ 400,000.00 of net profit	None
On next 1,600,000.00 of net profit	5%
On next 1,000,000.00 of net profit	10%
On any balance of net profit	15%

Any balance of the note remaining unpaid on March 1, 1955, matures on that date.

The loan agreement further provides that while the note remains unpaid the Company will maintain minimum working capital of $5,000,000.00, except that such minimum requirement will be reduced $250,000.00 for each $500,000.00 paid by the Company in reduction of the principal of the note, but at no time shall the minimum be less than $3,500,000.00. Except as may be required to meet the sinking fund provisions of the $5.00 Cumulative Preferred Stock, the Company may not without approval of the banks retire or redeem any of its capital stock, if after giving effect to such redemption or retirement, the net working capital is reduced below $7,500,000.00.

NOTE C—Sinking fund provisions of the $5.00 Cumulative Preferred Stock require that on April 1st of each year the Company shall redeem shares of such class of stock in an amount of par value equal to two per cent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions 1,799 shares of the $5.00 Cumulative Preferred Stock were retired on April 1, 1949.

NOTE D—Dividends on the $5.00 Cumulative Preferred Stock have been paid to January 3, 1950, a dividend date.

NOTE E—At January 31, 1950, the Company was lessee under three leases on branch stores, with expiration terms under renewable options of not less than twenty-five years from the above date in each case. The annual rentals under these leases are conditional upon sales, the aggregate minimum amounting to $190,000.00 per annum.

Summary of Income and Earnings Retained for Use in the Business

STRAWBRIDGE & CLOTHIER

Years ended January 31, 1950, and January 31, 1949

	Years Ended	
	January 31, 1950	*January 31, 1949*
Income before deducting interest, depreciation and provision for federal and state income taxes	$ 6,256,955.18	$ 7,201,217.04
Deduct:		
Interest	135,641.32	127,045.35
Depreciation	553,159.62	508,277.42
	$ 688,800.94	$ 635,322.77
INCOME BEFORE TAXES ON INCOME	$ 5,568,154.24	$ 6,565,894.27
Taxes on income:		
Provision for the year—estimated:		
Federal income tax and surtax	2,030,000.00	2,391,000.00
State income tax	215,000.00	252,000.00
Income taxes on installment sale gross profit (deferred for tax purposes)	73,000.00	57,000.00
Reduction of income tax provision on income of prior years (credit*)	129,000.00*	–0–
	$ 2,189,000.00	$ 2,700,000.00
NET EARNINGS	$ 3,379,154.24	$ 3,865,894.27
Deduct cash dividends declared:		
Preferred stock ($5.00 per share)	438,297.50	449,263.75
Common stock ($1.00 per share)	573,911.00	573,911.00
	$ 1,012,208.50	$ 1,023,174.75
BALANCE OF NET EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	$ 2,366,945.74	$ 2,842,719.52
EARNINGS RETAINED FOR USE IN THE BUSINESS—BEGINNING OF YEAR	13,717,645.91	10,874,926.39
EARNINGS RETAINED FOR USE IN THE BUSINESS—END OF YEAR	$16,084,591.65	$13,717,645.91

See accompanying "Notes to Financial Statements"

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
PHILADELPHIA
FIDELITY-PHILADELPHIA TRUST BUILDING
DELIVERY ZONE 9

TO THE STOCKHOLDERS OF
STRAWBRIDGE & CLOTHIER

We have examined the balance sheet of STRAWBRIDGE & CLOTHIER as of January 31, 1950, and the statement of income and expense and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination and report for the year ended January 31, 1949.

In our opinion, the accompanying balance sheet and related summary of income and earnings retained for use in the business present fairly the financial position of STRAWBRIDGE & CLOTHIER at January 31, 1950, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

March 28, 1950

TO THE STOCKHOLDERS OF
STRAWBRIDGE & CLOTHIER

The financial statements contained in this report are correct to the best of my knowledge and belief.

Donald C. Mills

Treasurer

APRIL 7, 1950.

Jenkintown

Ardmore